

EXHIBIT G

To: Husson, Timothy[hussont@SEC.GOV]
From: Stevens, David
Sent: 2020-10-15T18:28:04-04:00
Importance: Normal
Subject: RE: IQDNX
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[IQDNX analysis_20201015.xlsx](#)
[Correlation analysis_20201015.pdf](#)

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I explored five topics: (1) How did they outperform in March-2020 when other vol funds faltered; (2) What is it that they do? (3) Do they really have returns orthogonal to the markets? (4) Is their cash position abnormally low for a largely derivatives fund? (5) Are they mis-marking their variance swaps (and possibly other instruments)?

High-level summary: (1) They were basically positioned short the market and long vol heading into March-2020, so should have fared well; (2) They are primarily a vol fund, trading anything from variance swaps to dispersion/correlation trades to other exotics (e.g. digital options, best of options, etc.); common stock positions appear to be them just dabbling; (3) Their correlation to the market ranges from highly positive to highly negative; it seems like they are taking implicit macro risk but that which varies over time; over a long window, it appears zero correlation, but at times highly negative and highly positive; in short there is still likely market risk here; (4) I have to look at PF more, but from their Form-NCRS filings, they hold a fair amount of cash in short-term investments like money market funds and it remains the case; (5) They may be doing stuff with their marks. I replicated parts of TM's analysis, and found some instances of it. However, I believe TM is comparing apples-to-oranges when showing the mark on Bloomberg versus the realized gain/loss reported in filings (gains should be compared with gains, marks compared with marks, not marks versus gains). I think the right approach is to take positions held over more than one quarter and take the delta in the gains/losses in the filings versus the delta per Bloomberg; reason being, we have no idea what is the basis on the trades (so we can't just compare gain/loss to Bloomberg valuation). It is worth exploring further as there are discrepancies even on a delta basis. TM's approach has the advantage of having more data (since positions change) so I get why it was done that way, but I think one can illustrate the issue on a reduced sample with the like-for-like approach.

My main takeaway is it's believable they have these returns; they are only a Sharpe of 1.5x, but areas to explore would be A) Are they vulnerable to a black swan event because there is likely implicit market risk? and B) are they doing anything funny with their marks?

This is all preliminary first cut; if we want to go deeper, happy to discuss further.

Details:

(1) The vanilla positions reported on 2/29/20 in Form-NCRS are net short the market and long volatility, a recipe that would have fared well in March-2020.

- ☐ They expended ~\$93mn on put premiums versus just \$14.5mn on call premiums.
- ☐ Notional value of the puts was in excess of ~\$10.5bn versus ~\$2.1bn for calls.
- ☐ Their calls included calls on the VIX, which subsequently spiked.
- ☐ Do not have visibility on the intra-quarter positioning, but if they held the positions, could have seen mark to market gains of several hundred million dollars as they gained on long puts and long vol calls, which far exceeded the loss on the non-volatility long call positions. For example, they had calls on the VIX with a 40 strike heading into the volatility, that alone could have gained ~\$70mn.

This is a simplistic analysis where I just focused on their calls and put options and equity positions; I did not do this analysis on OTC derivatives.

So, I can see why they performed well in March-2020. They do not appear to just be a consistent seller of volatility, which is likely why many vol funds employing that same selling insurance strategy did not fare well.

See attachment on tab "Mark to market" breaking out hypothetical P&L on their non-OTC products.

(2) I'd have to dissect their OTC derivatives further to reach firm conclusions, but they appear to be basically engaged in trading volatility and related products (dispersion, correlation swaps, etc.) as an asset class. It's about 80% of their portfolio. They seem to have recently been long vega, which is a bit atypical as many vol strategies are short vega and try to hedge the tails. It would take time to further understand their methodology for putting on trades, since it seems to vary over time, but it likely simplifies a core strategy (*they almost always do*) like short vol in a certain geography, long in another, and long puts to hedge tail risk on the short vol strategy. **There is also data/reports (pages 15,21) showing that selling variance and hedging tail risk with long puts or calls on volatility has worked historically, and could deliver this type of return, which is not exactly outlandish.**

(3) Correlation to the market is likely not zero consistently. They report basically no correlation to the market, but this has evolved over time. At times highly correlated to market, at times negatively correlated. They were likely effectively short the market heading into March-2020. **Attached pdf depicts scatters over time and rolling correlation.**

I have a template looking at returns for a fund in form PF and analyzing correlation to the market (see [here](#)). But they don't appear to have reported the returns consistently over time, so I used returns from their presentation.

(4) They do have heavy cash-like short term investments; they are down in the recent period, but still almost 60%.

Form-NCRS

	Short-term investments	Total investments	Total net assets	Short-term/ total investments (%)	Short-term inv./total net assets (%)
8/31/2015	\$23,502,026	\$28,060,955	\$60,513,181	84%	39%
8/31/2016	\$53,663,046	\$68,539,562	\$141,650,809	78%	38%
8/31/2017	\$47,007,303	\$64,413,390	\$163,106,887	73%	29%
2/28/2018	\$101,866,908	\$117,788,874	\$196,033,428	86%	52%
8/31/2019	\$322,853,647	\$438,716,305	\$687,729,536	74%	47%
2/29/2020	\$356,500,871	\$600,901,998	\$838,689,056	59%	43%
5/31/2020	\$564,154,595	\$631,072,063	\$1,268,589,786	89%	44%

(5) I think when testing their marks, we should compare the reports change in gains/losses to the estimated gains/losses. If we compare the reported gains to just the marks, it misses the basis component.

For example, the TM analysis shows a gap of about \$6.25mn (negative) for the KOSPI 18.6% strike variance swap, but that would narrow to -\$1.4mn taking changes in the marks to derive the changes in the unrealized gains (last row of table below). That said, as can be seen from the table, there are still marks that differ from Bloomberg.

I'm not sure how common that is; it may be worth discussing a systematic screen using the Form NCRS data to run this analysis and flag any funds with unusual marks.

Counterparty	Type	Variance strike	Effective date	Termination date	Vega notional	Unrealized gain (loss)			Bloomberg value		
						2/29/2020	5/31/2020	Delta	2/29/2020	5/31/2020	Delta
BAML	RTY Variance	20.00%	1/7/2020	9/18/2020	(\$340,000)	(\$1,822,688)	(\$12,045,292)	(\$10,222,604)	(\$3,132,427)	(\$19,361,945)	(\$16,229,518)
BAML	RTY Variance	22.40%	12/18/2020	12/17/2021	\$250,000	\$1,081,380	\$13,099,447	\$12,018,067	(\$480,573)	\$1,664,767	\$2,145,339
BAML	RTY Variance	22.75%	12/18/2020	12/17/2021	\$150,000	\$110,738	\$4,117,030	\$4,006,292	(\$335,086)	\$931,602	\$1,266,688
BAML	RTY Volatility	19.00%	6/6/2019	12/18/2020	\$200,000	\$837,547	\$3,913,213	\$3,075,666	\$134,284	\$6,212,688	\$5,378,404
BAML	SPX Variance	20.90%	2/17/2017	12/18/2020	(\$500,000)	\$1,735,215	(\$1,173,257)	(\$1,908,472)	\$925,829	(\$2,968,717)	(\$4,893,546)
DB	KOSPI variance	18.60%	12/12/2019	12/18/2020	\$500,000	\$4,676,658	\$13,729,021	\$9,052,363	(\$1,211,700)	\$6,449,079	\$7,660,779

From: Husson, Timothy

Sent: Wednesday, October 14, 2020 8:36 AM

To: Stevens, David

Subject: RE: IQDNX

Thank you. As an update, they seem to hold a bunch of other stuff – Bloomberg and Morningstar seem to have bad data here. This is about the most complicated registered fund I have yet encountered.

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From: Stevens, David <stevensd@SEC.GOV>

Sent: Wednesday, October 14, 2020 8:26 AM

To: Husson, Timothy <hussont@SEC.GOV>

Subject: RE: IQDNX

Sure, I'll take a look.

From: Husson, Timothy <hussont@SEC.GOV>

Sent: Wednesday, October 14, 2020 7:25 AM

To: Stevens, David <stevensd@SEC.GOV>

Subject: IQDNX

Could you please look into IQDNX, the Infinity Q Diversified Alpha fund? It is a mutual fund that I believe mimics a similarly branded hedge fund. They describe a 'quantamental' strategy on their website, and appear to hold (exclusively) variance swaps on ETFs. I'd be interested in what their strategy entails and how it might interact with the derivatives rule, amongst other things.

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